

# I. Introduction

## 1. Study Background

The 1997 financial crisis in Asia exposed structural weaknesses in the banking and corporate sectors of affected countries owing largely to poor governance, lack of transparency, and weak supervision and regulation.<sup>3</sup>

The Asian Development Bank (ADB) has been taking a number of initiatives to assist Developing Member Countries (DMCs) in overcoming these structural problems. The focus on improved governance includes enhancing the effectiveness of public administration and development management at the sector level and in national institutions in the DMCs. Where appropriate, institutional development of the local and provincial agencies and the private sector is also covered. A sound regulatory financial framework and its enforcement, capable institutions, skilled human resources, and effective monitoring and supervision are important prerequisites to an efficient financial structure.

Regional Technical Assistance (RETA) No. 5877 – *Strengthening Financial Management and Governance in selected DMCs* – was approved by ADB for the purpose of carrying out initial studies to identify gaps and weaknesses in financial management and governance and to recommend courses of action to overcome these problems.

## 2. Objectives

ADB has demonstrated its stand on the importance of good governance, through effective financial management, for sustained economic development. This RETA involved a diagnostic review of the existing accounting and auditing support and standards available in the selected DMCs. After carrying out this diagnostic analysis, the RETA assessed the need for assistance to improve the current situation. The RETA objectives were to:

- (i) assess the capability and capacity within each country to provide efficient and effective accounting and auditing support to meet

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<sup>3</sup> Zhuang, Juzhong, David Edwards, David Webb and Ma. Virginita Capulong. 2000. *Corporate Governance and Finance in East Asia: A Study of Indonesia, Republic of Korea, Malaysia, Philippines, and Thailand*. Asian Development Bank: Manila.

- international standards and best practices; and address the issue of training and capacity enhancement
- (ii) determine the existing accounting and auditing standards of each country
  - (iii) assess the degree of deviation from International Accounting and Auditing Standards (IAAS) while identifying weaknesses and possible corrective options
  - (iv) discuss the fieldwork findings and introduce the concepts of the international standards through workshops
  - (v) develop reference materials for potential users of the IAAS, and
  - (vi) determine the level and type of assistance needed by each country in order to provide acceptable accounting and auditing support to the private and public sectors.

### **3. Scope**

The RETA involved an in-depth study of the key issues relating to accounting and auditing support in the selected DMCs, identified gaps and weaknesses that need to be addressed to improve accounting and auditing support, and developed assistance programs in collaboration with other donors to rectify the identified weaknesses. Viet Nam was one of seven countries participating in the RETA.

### **4. Country Case Studies and Workshops**

The first part of this study examined the current accounting and auditing structure and systems adopted in Viet Nam. It also

- (i) analyzed the political, institutional, and regulatory and legal framework on accounting and auditing practice in Viet Nam and the level of enforcement of existing laws, rules, and regulations,
- (ii) identified gaps and weaknesses in accounting and auditing support available and deviations from international standards, and
- (iii) identified alternative options to remedy the identified weaknesses, with the objective of eventually doing away with these.

The second part of this study disseminated the findings of the country research through in-country workshops. Each workshop provided a cross-section of views on the findings of the research and established ways to move forward to improve financial management and governance in the country. After carrying out the assessment of accounting and auditing support in Viet Nam, the study findings and recommendations were discussed at a workshop in Hanoi on 10-11

August 2000, and an international conference at ADB Headquarters in Manila on 16-18 October 2000. This report incorporates feedback from the Workshop and the Conference.

### **5. ADB Focus on Financial Governance in Viet Nam**

The main focus of ADB's operational strategy in Viet Nam is the significance and urgency of reforms. Policy dialogue, good governance and capacity building are being given a high priority. Good governance is a core part of this strategy. This RETA complements other ADB initiatives, which will lead to improved financial management and governance.

### **6. Viet Nam**

Viet Nam is approximately 1,750 kilometers long and has a land area of approximately 330,000 square kilometers. The east coast and southern tip of Viet Nam border the South China Sea, and the People's Republic of China, the Lao Democratic Republic and Cambodia lie to the north, west and southwest respectively. Two large river systems dominate the north and south of the country. In the north, the Red River flows through Hanoi and the port of Haiphong into the Gulf of Tongkin. In the south, the Mekong River flows through the Mekong delta south of Ho Chi Minh City into the South China Sea.

The capital of Viet Nam is Hanoi, which lies in the north of Viet Nam. Principal cities include Ho Chi Minh City (formerly Saigon) in the south, Haiphong on the northeast coast and Da Nang, Hue and Nha Trang, all on the east coast. The vast majority of Viet Nam's population of around 80 million people lives in rural areas. Official estimates of the population in the two major cities of Hanoi are 3 million and Ho Chi Minh City 4 million.

Although the population of Viet Nam comprises a number of ethnic groups, each with its own culture and language, the national language is Vietnamese. English is emerging as the most readily used and understood language between foreign businesspersons and Vietnamese parties. French is still widely spoken, and many Vietnamese speak and understand Russian or German. Viet Nam has a well-educated population, with a literacy rate of around 90 percent.